To: Sunshine Task Force
From: Bob Brownstein
Subject: Reform of Public Process Regarding Major Public Subsidies
Date: December 19, 2006

Background:

Several reforms currently being implemented by the City of San Jose are directed
towards major expenditures over $1 million dollars and towards issues of "significant
public interest." These reforms include Public Information Reform #4, Public
Information Reform #11, and Government Accountability Reform #3.

These reforms are not sufficient to provide the public with an opportunity for meaningful
participation on proposed large-scale public subsidies (subsidies of more than $1 million
dollars). Public subsidies are grants of public funds, land, or other assets or services of
value to a specific for-profit entity, non-profit entity, or event – usually for the purpose of
encouraging the entity to locate its activities in San Jose. Public subsidies are distinct
from standard contracts for goods or services.

Public subsidies tend to involve complex and unique arrangements requiring more time
and information for the public to be able to evaluate the wisdom of a proposed public
investment. Subsidized projects such as the Gran Prix, the Hayes Mansion, and UA
Theatres demonstrate the diversity of these kinds of proposals as well as the risks
associated with their approval.

Recommendations:

1) The full staff proposal for a major public subsidy must be made available to the public
30 days before the City Council hears the issue.

2) Before the City Council holds its first hearing on the proposed subsidy, the staff report
shall be referred to either a City Council Study Session or to a Taxpayer Review Panel. A
Taxpayer Review Panel will be composed of San Jose residents with particular interests
or expertise in evaluating the proposal. The Study Session or the Review Panel shall
afford the public the specific, focused opportunity to raise questions regarding the
subsidy that staff will have the obligation to answer at the formal City Council hearing on
the issue.

3) The Staff Report on the subsidy proposal must include the following minimum information:

1) Cost-Benefit Analysis

   a) Net tax revenues
   > A calculation of tax revenues generated by the subsidy minus tax revenues lost. For example, if a subsidized project replaces one business with another the taxes generated from the former business must be subtracted from the taxes generated by the new business.

   b) Fiscal opportunity cost
   > A description of the types and scale of services or projects that could have been funded by the amount of the subsidy. The fiscal opportunity cost will vary depending on the source of funds for the subsidy – the general fun, redevelopment funds, etc.

   c) Impact on City Services
   > An estimate of any increase in city services, such as police services or road maintenance, that will be required for the subsidized project.

   d) Impact on Neighborhoods
   > A description of the effects on neighborhoods in the vicinity of the project, such as noise, traffic, pressure on public infrastructure and facilities, etc.

2) Economic Effects

   a) Net job impact (categorized by wage and benefit level)
   > An analysis of the number of jobs to be gained and lost categorized by wage and benefit level. If a project replaces an existing business or directly competes with an existing business, job losses should be estimated and subtracted from the total impact.

   b) Net housing impact (categorized by affordability)
   > An analysis of the number of housing units gained and lost categorized by level of affordability. This analysis would also include a determination of the project's effect on housing demand.

3) Accountability

   a) Schedule of reports back on progress to meet projected returns
   > A statement of the times at which staff will report back to the city council regarding the extent to which the project is actually generating the outcomes predicted in the staff proposal.

   b) Options available if projected returns do not occur
   > An evaluation of the options available to the city if the project fails to meet all or any of its projected objectives.